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AGRICULTURAL OUTLOOK DIGEST

Approved by the Outlook and Situation Board, April 24, 1974

INFLATION IS ERODING FARM INCOME

In 1973, farm receipts from crop and livestock sales advanced so far that they kept well ahead of inflation in farming costs, and wound up with a record $26 billion in realized net farm income.

This year, gross income will gain an expected $5 billion. But that won't be enough to win the race against a $9-billion rise in farm production expenses. So, if current forecasts of farm output and prices hold up, we see farmers netting $22 billion, second only to last year's record, but down substantially.

Part of the hike in input costs is farm-originated: the sharply higher prices of feed and seed. But much of the rise in production costs this year is due to the oil-crisis impact on fuel and fertilizer prices and to increases in the prices of other goods and services farmers must purchase.

Prices paid by farmers

	Month measured	Change from year earlier
	1974	*Percent*
Feed	May	+12
Seed	April	+49
Motor supplies (including fuel)	March	+34
Fertilizer	April	+59
Production items, interest, taxes, and wage rates	May	+15
Feeder livestock	May	-18

Closer Look

A closer look at the income side of the 1974 ledger tells a lot about what farmers are likely to produce and the prices they are likely to get.

There are more products coming off farms this year, with a modest recovery in livestock production and a sharp jump in crop output.

Farm prices are forecast to average even higher than in 1973, including both the climbing prices of early 1974 and the current and expected decline of prices with heavy marketings this fall. This would be a big change from last year, when prices rose sharply right into August, and then eased only moderately.

For the remainder of 1974, look for these commodity price trends:

Low grain reserves will help support crop prices through the second quarter, and livestock prices will show some recovery as beef output eases down. During the third and fourth quarters, record harvests made here and abroad will cause crop prices to drop. Cheaper feed grains and soybeans should encourage second-half livestock expansion, leading to bigger early-1975 meat supplies. With good consumer demand, livestock prices could stabilize late in 1974 after settling below 1973 levels.

An important contribution to gross incomes in past years has turned into a trickle this year. Government payments last year added over $2½ billion to the gross income side, but only $1/2 billion is likely in 1974.

Other Outcomes

These price and income prospects are based on the idea that we'll get at least average yields, and that our foreign customers will be less reliant on U.S. farm exports once their 1974 crops are harvested. If crop output or exports take different turns, farm prices could react sharply. Tight grain reserves, the risks associated with high production costs, and the tenuous economic situation are teaming up to keep prices sensitive.

Unexpected developments could also change farmers' production plans, especially those of livestock producers. Cattle and hog feeders and turkey growers have suffered economic setbacks because of slipping market prices and continuing high feed costs. For example, if prospects for corn crop drop below the 6.7 billion bushels now projected, look for a dampening of poultry and egg production before year's end and an impact on first-half 1975 livestock marketings.

CALENDAR

June/July Release Dates
Economic Research Service
Statistical Reporting Service*

Crop Production Report*	June 10
Cattle on Feed Report*	13
Tobacco Situation	14
Cold Storage Report*	18
Poultry and Egg Situation	20
Fats and Oils Situation	21
Hogs and Pigs Report*	21
Fruit Situation	25
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Livestock and Meat Situation	3

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GROWING WEATHER NICE; ECONOMY STORMY

While the weather is generally smiling on farmers this spring, the economy isn't. Except for dry spots in the Southwest and southern Florida (now partially corrected by rain) and a wet spell in the Corn Belt, planting weather has been favorable this spring. Through late May, planting progress was well ahead of last year and the winter wheat crop was in great shape.

Meanwhile, the economy underwent a stormy first quarter. The GNP slithered on an oil slick as the energy crisis sharply depressed the automobile industry, petroleum products became short, and consumers stayed home in droves.

Real GNP was down 6.3 percent for the first quarter. Unemployment figures didn't worsen during the first quarter but are likely to do so now. Meanwhile, inflation romped at an 11½ percent annual rate and short term interest rates soared. First-quarter personal incomes, after deducting taxes and the cost of inflation, dropped from fourth-quarter 1973.

While farmers are benefiting by good weather, like other Americans they are sharing the burden of these economic problems. It's important to remember that farm families earn almost as much income elsewhere as they do from farming itself.

Outlook

Inflation in the first quarter came largely from higher prices for basic commodities, including farm commodities. The second quarter may see a different situation, with wholesale farm prices of farm products down while industrial prices advance.

On April 30, Federal price controls ended. In part because farm prices were decontrolled last summer, the impact on most food prices is likely to be small for the time being. However, much higher prices contracted with growers this year could boost wholesale prices for 1974 fruit and vegetable packs.

Look for slippage in real GNP to continue during the second quarter but less severely than in the first, with the impact of high interest rates hitting hardest at the housing industry. For the second half of 1974, however, a slow uphill climb is in real GNP likely.

Restrictive monetary measures and high interest rates will continue this year, as the Federal Reserve tries to get a lasso around inflation. Continuing inflation and more unemployment are likely to frustrate improvements in real per capita incomes in the months ahead. In this bind, unions will push for substantial wage and benefit increases.

Economic troubles may be self-healing to some extent. Industry leaders report plans to expand plant and equipment, and there may be some accumulation of inventories. These moves are considered essential for renewed sound growth of the economy and the cooling of inflation.

EXPORT PINNACLE

The value of farm exports is now forecast at $21 billion for 1973/74, $1 billion over the February prediction. The forecast was increased on the strength of higher prices and volume gains for feed grains, soybeans, and cotton.

This level of farm exports would represent an $8 billion jump over the 1972/73. Nearly all of the increase is occurring because of higher prices.

The exports will generate a tremendous balance of payments surplus over farm imports, estimated at a $11½ billion.

Looking at our export experience from July 1973 through March 1974--first 3 quarters of the fiscal year--exports totaled $15.8 billion.

Comparing July-March exports with the same quarters of 1972/73 reveals that total grain exports more than doubled in value. For the entire 1973/74 season, grain exports may approach $11 billion. We are exporting less rice and about as much wheat, but a much larger feed grain volume.

Soybeans and products are another big resaon for our export success. The volume of soybean shipments will top last season. Higher prices will also raise the value of soybeans and products.

Larger agricultural exports are going to all of our markets except the USSR. Value of our exports to developing countries has been running double the 1972/73 level. The largest 1973/74 value gain is in Asia. Booming sales to Japan and other Southeast Asian nations are each up around $1 billion, while China is buying $800 million worth.

Looking Ahead

Exports during 1974/75 will lose some of this season's strength and total $17-19 billion. Prices of our farm products are likely to be lower. At the same time, demand abroad is likely to slacken. Economies are slowing down in many nations besides our own, while inflation--due in good measure to higher prices of basic food and energy commodities--is reducing ability to pay for imports. World crops are expected to be larger, helping to ease the tight food and feed situation overseas.

FARMERS' SHARE DROPS

Retail food prices during the first quarter of this year jumped up by 4½ percent, largely on the strength of higher farm prices. During the second quarter prices are likely to average only 2 percent higher, and in fact declined a bit in April. They may change little during the third quarter and possibly decline for the fourth.

This forecast rests on prospects for a sharp increase in farm output, together with less persistent demand pressures because of both stalled economic growth and a probable letup in the pace of exports. But some of these price-easing pressures will be nullified by inflation in the food industry, led by higher costs for energy, labor, and transportation.

These rising costs mean that the farmer gets less of each food dollar compared with last year, and that the dollar spread between the farm price and the retail value of food is increasing. For example, the farmers' share of a dollar spent for a 'market basket' of foods was 45 cents in April 1973, but down to 42 cents this April.

BIG WHEAT CROP

What happens when you give a farmer incentive and take away farm-program restraints? The 1974 wheat crop is a nice example. Harvested acreage for this crop is estimated up 11 million acres, following a 7-million acre expansion the year before. Production is forecast 460 million bushels above 1973--equal to about a year's food consumption.

Much of the gain comes from winter wheat, which could yield 1.6 billion bushels, according to May 1 crop conditions. This level, 7 percent more than previous estimates, would push the crop 27 percent above the 1973 harvest.

With the large 1974 wheat crop, wheat feeding is expected to rise later this year and may total 200 million bushels for the 1974/75 season. The wheat carryover in mid-1975 could rise to about 530 million bushels, triple the 170 million forecast for this summer.

Wheat prices are down sharply from their season's peak of $6.20--they hit $3.60 a bushel at Kansas City in mid-May-- because of slowing wheat exports now and prospects of big crops later.

Wheat exports during the 1974/75 season could drop some, to 1 billion bushels. Early projections suggest a world wheat crop up 3 percent this year. Despite larger crops in North America, Australia, and Argentina, the Russian crop is down and India is suffering a major setback.

For factual information about important food and farming topics, check this spot each month. It highlights recent reports on the issues, chosen for brevity and clarity. To get a copy of the report, clip and send to address indicated with your name address, and zipcode.

***Handbook of Agricultural Charts, 1974 Spring Supplement,* 36 pp. All the impact of the past six months hits home in this compilation of 53 charts and brief narrations. You see it all: plunging economy, soaring commodity prices, depressing feed ratios and zooming land prices. Current through the first quarter of 1974.**

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MORE AND CHEAPER FEED GRAINS

Corn, like wheat, could be held up as an example of producer reaction to high prices and strong demand in the absence of planting restrains.

Corn plantings are indicated to be up a tenth this year, and pushing 80 million acres. The crop has been getting in on time as farmers take advantage of good weather and soil moisture. We project yields averaging 97 bushels per acres, the same as in 1972 but up from last year's reduced level. This could result in a crop of 6.7 billion bushels, up sharply from 1973.

Corn will have a major impact on the 1974/75 feed grain supply. While production of barley and sorghum may drop this year, prospective acreage and output of corn is up so sharply that it may offset the impact of small carryovers slated for this fall and declines in barley and sorghum production, providing a larger feed grain supply for 1974/75. Oat production also should be up for 1974.

Prices Off

The huge prospective corn crop, coupled with the record wheat harvest, could have a depressing effect on prices. Harvesttime corn prices could drop below $2 per bushel, but still be higher than prices at harvest in most recent years.

Lower prices may mean improvement in livestock-feed price relationships from the recent unfavorable levels. Better ratios could help to hold the feeding rate near the current high level. At the same time, the number of grain-consuming animal units, a uniform measure of the demand for feed by all types of livestock, could rise 3 percent from 1973/74. Meat and poultry production will be larger next year. The heightened feed needs are likely to result in 5-percent boost in domestic corn use during 1974/75, to 4.9 billion bushels.

Export demand for corn next season may about match the 1.2 billion bushels being exported during 1973/74. Our feed grain prices will be more attractive than currently while the needs of feed grain importing

Prospective feed grain crops

Crop	Corn	Sorghums	Oats	Barley
	Percent change from year earlier			
Stocks at end of 1973 Crop Year	-36	+18	-35	-18
Planted 1974 Acreage	+10	-2	-2	-16
Prospective 1974 Production	+18	-4	+24	-4
Projected Supply for 1974/75	+8	-2	+2	-7

No Protein Pinch

In addition to more feed grains, protein meal supplies are increasing and prices have come down. Processing of the enormous 1973 soybean crop has boosted meal supplies and brought prices of soybean meal at Decatur down to around $110 per ton lately, compared with $200 last winter. Soybean meal prices are much closer than usual to corn prices on a pound-for-pound basis.

Increased feeding of soybean meal may result this summer, and use for the 1973/74 season may approach 13½ million tons--back up to the levels of the late 1960's and early 1970's.

FOREIGN FOCUS

Last month we took a look at present and prospective agricultural developments in most regions of the world; this month's column examines the situation in the last two regions, China and other Communist Asia, and Africa and West Asia.

Farm Output Rises in China. . .

Although poor weather reduced farm output last year in North Vietnam, farming scored gains in the People's Republic of China, Mongolia, and North Korea. PRC officials claimed records for production of grain, cotton, sugar, and tobacco, and larger soybean output as well. At the same time, livestock production stagnated. Poor weather was blamed.

China's wheat imports rose sharply in 1972/73, and are peaking at an estimated 6½ million metric tons during 1973/74; we are providing 4 million tons. Wheat imports may ease back to 4.7 million tons in 1974/75, with less that a fourth from us.

Corn imports, insignificant until 1972/73, are peaking at 2.7 million tons during 1973/74--mostly from us. We project Chinese imports of only 950,000 tons during 1974/75, largely from Argentina.

. . .But Slumps in Africa

Agricultural output in 1973 dropped 4 percent in Africa and 7 percent in West Asia. Per capita food production was off even more sharply, and fell below the average of early 1960's.

Among leading agricultural nations, 1973 production slumped in the Republic of South Africa, dropped slightly in Nigeria, but advanced in Egypt where record wheat, rice, and sugarcane crops were made. Production of leading African export crops--coffee, cotton, and cocoa beans--declined.

Drought continues to be critical in the six nations of the West African Sahel. Large tonnages of grains and other foods have been shipped there for relief, and will continue to be needed during 1974. We will again see emergency airlifts, although some stocking up in remote areas prior to the rainy season is being attempted. The United States is sending ¼-million tons of corn and sorghums to the Sahel this year. It's estimated a total of at least ½-million tons of grain will be required. The drought conditions that have plagued West Africa for 5 years are now affecting Eastern Africa as well, principally Ethiopia.

Farm output for West Asia was reduced by a downturn in crop output in Turkey, especially for wheat. Iran, the other major producer, achieved a slight gain in farm production last year.

WORLD LIVESTOCK BUILDUP

After a spell of tight livestock supplies, many nations find themselves with more meat. Our own livestock output is advancing during the first half this year and could expand further during the second half if feed prices decline as expected. The European Community (EC) is faced with surplus meat and poultry stocks and declining prices. Japanese livestock feeders also are unhappy about lower prices.

Reaction has been swift in meat importing countries. Early this year Japan restricted beef imports. Since late last year, the EC has taken a series of measures to sharply restrict beef imports, and is now exporting subsidized chicken. On May 1, Italy came out with an import curb of its own. Stuck with a huge trade deficit because of oil prices, the Italians effectively stopped most imports except oil and some basic commodities, including feedstuffs. Two major targets of the ban are meat and cattle imports, which cost Italy over $2 billion last year. A week later, anticipating a flood of cheaper U.S. poultry, Canada curtailed imports of eggs and turkeys selling below their very high support prices. Canada had already forbidden imports of livestock and products containing DES.

The combined impact of these restrictions may push meat exporting countries to look increasingly to the United States.

LIVESTOCK WRAPUP

Fed cattle prices firmed at $41 during May after dropping sharply this winter. Hogs were down below $26 in mid-May. Both markets are lower because of discounts for overfinished animals. These price levels point to a return to the supply-demand relationships for cattle and hogs that existed prior to mid-1973.

Cattle slaughter this summer will likely drop some from winter and spring, and prices may rise to the mid-$40's. Late summer and fall will bring more cattle and declining prices. Much of this year's prospective increase in beef supplies comes from non-feedlot sources: cows, nonfed steers and heifers, and increasing meat imports.

Cattle feeders seem to be quickly unloading the large supply of heavy cattle, and price strength has been limited. Most gains will come later. Winter pork production was 3% over a year before; output will continue above 1973's depressed levels through 1974. Hog prices are expected to rise normally to a summer high before their seasonal decline next fall.

First quarter retail beef and pork prices were probably at their highs for the year, and April prices showed declines reflecting larger meat production. However, retail meat prices, following live animal trends, will probably rise from spring into summer, and then generally decline for the rest of 1974 as meat supplies increase.

Per capita meat consumption this year is expected to rise from 1973's 176 pounds but will not reach the 189 pounds of 1972.